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President's Advisory Panel on
Federal Tax Reform
1440 New York Avenue, NW
Suite 2100
Washington, DC 20220

PRESIDENT'S ADVISORY
PANEL
ON FEDERAL TAX REFORM

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Dear Sirs,

I submit herewith my proposal for a reform program. I am a retired individual, and do not have the data available to suggest the dollar impact of these proposals. I suggest doing away with the current federal individual income tax, and replacing it with an integrated combination of an energy consumption tax and a flat rate tax on gross income.

The energy consumption tax would apply to all carbon-based energy forms, such as oil, gas, and coal. It would be paid at the source, and thus passed on to the consumer by oil companies, utilities, etc. It would be in an amount designed to (a) encourage conservation, and (b) provide a competitive advantage to other energy sources, including both use and development. For example, a tax of \$3 per gallon on oil products, based on 20MM 42-gallon barrels/day consumption, would produce \$912 billion per year, according to my calculations. Taxes on coal and natural gas usage, primarily utilities, would be additional. The energy consumption tax would be integrated with the flat rate tax on gross income as described below.

The flat rate tax on gross income would be a flat rate applied against all income – earned, investment, capital gains, etc. Using gross incomes would allow the rate to be kept lower than otherwise, while doing away with the current confusion of deductions, credits, etc.

From the tax thus calculated would be subtracted an energy tax rebate based on a set dollar amount per person. The amount decided upon would, combined with the rate of the gross income tax, determine the income level at which the flat rate tax would begin to require payment by the taxpayer. Those with negative tax payable (rebate exceeding gross income tax) would

receive a refund. The net effect would be to restore the progressive aspect of the tax system, since the energy tax would fall most heavily on lower income taxpayers.

I do not have available here data to offer calculations in detail, or to suggest whether this approach could be applied also to corporate income taxes. My proposal is designed to deal with several problems.

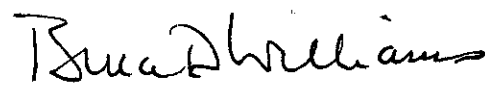
Taxing energy consumption would, over time, reduce consumption, reducing our dependence on overseas oil and air pollution. It would also provide strong incentives to non-carbon energy development and usage. Current regulations and subsidies directed to non-carbon sources would be ended, since they would now have competitive advantages. Mass transit would become more economic for commuters and travelers.

Turning energy taxes paid into a rebate against income taxes would reduce the burden on lower-income people, but keep the incentive/benefit for them from conserving. Furthermore, middle-income people would receive considerable benefit from the rebate, retaining progressivity in the effective tax rate for most taxpayers. The use of a per person rebate amount combined with the flat rate would lend itself to doing away with different classes of filing (single, joint, widow, etc.).

The benefit of the gross, rather than net, income approach for the tax basis is simplicity. The question of "deductibility" would disappear. The use of a gross income approach would permit the rate to be lower than in a net income approach, lowering the impact on business decisions.

If you would like me to elaborate further on this proposal, please write me at the above address, or call me at 201-342-2886.

Yours truly,


Bruce D. Williams